



July 5, 2019

IESO Stakeholder Engagement

*Submitted via email*

**Re: AMPCO Submission - DRWG and TCA (HDR Resources and Energy Payments)**

AMPCO is the voice of industrial power users in Ontario. Our goal is industrial electricity rates that are competitive and fair.

Attached is AMPCO's submission made in response to the call for input as part of the Demand Response Working Group's involvement in the proposed Transitional Capacity Auction.

AMPCO appreciates the opportunity to provide such a submission, and looks forward to continuing the dialogue.

Best Regards,

*[Original signed by]*

Colin Anderson  
President

## HDR Resources and Energy Payments:

### Submissions of the Association of Major Power Consumers in Ontario (AMPCO)

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#### INTRODUCTION

Ontario's electricity system is complex and always evolving. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line.

These submissions are made in response to the call for feedback issued by the IESO at its June 19 stakeholder session (the Demand Response Working Group (DRWG) meeting). AMPCO's members are major power consumers, responsible for over 15 TWh of annual load in the province. A reliable and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in these discussions.

AMPCO appreciates the opportunity to provide this feedback and looks forward to continued dialogue on the Transitional Capacity Auction (TCA).

#### SUMMARY

Directionally, AMPCO supports the movement by the IESO on the issue of energy payments for demand response (DR) proponents. However, the pace of the movement does not match the IESO's desired pace for the movement of the remainder of the TCA project.

AMPCO fully supports payments for both out-of-market and economic activations of DR, and AMPCO feels strongly (as set out in its submission of May 2, 2019<sup>1</sup>) that such payments need to be implemented at the same time as the initiation of the TCA

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<sup>1</sup> Found at <http://www.ieso.ca/Sector-Participants/Engagement-Initiatives/Engagements/Meeting-Ontarios-Capacity-Needs-2020-2024>

itself. To do otherwise is to embrace a design element that is blatantly discriminatory in nature and counter to clear objectives that have been set for the design of the TCA.

Accordingly, AMPCO suggests that both the out-of-market and economic activations of DR be scheduled to be implemented prior to the first TCA auction. If this necessitates a delay of the first auction, then so be it, since the auction is not required from a reliability perspective in December 2019. It is better to take a little longer and do things correctly than to rush them and include known deficiencies within the design.

In regards to the HDR testing method that the IESO is recommending, AMPCO supports the proposed approach.

#### MAJOR ELEMENTS OF THE JUNE 19 STAKEHOLDER SESSION

Below are the main elements of the DRWG stakeholder session conducted by the IESO on June 19 on which AMPCO will submit comments:

1. Testing of HDR Resources - Seeking stakeholder feedback on the proposal
2. Cost Recovery for Out-of-Market Activation of DR Resources - Seeking stakeholder feedback on concept and design considerations
3. Energy Payments for Economic Activation of DR Resources - Seek stakeholder input on approach to conducting the analysis.
  - What is the appropriate analysis to complete?
  - Who is best to complete the analysis?
  - Who else should be consulted?
  - When is a decision required by?

## AMPCO COMMENTS ON EACH ELEMENT

### 1. Testing of HDR Resources

AMPCO fully supports the testing approach being proposed by the IESO.

However, as highlighted in AMPCO's submission on the IESO's alternative Load Pricing design, hourly demand response (HDR) still requires some attention from a pricing perspective. In today's market, such resources can participate as NDL while receiving uniform pricing. As part of its new Load Pricing proposal, the IESO has (somewhat arbitrarily) decided that these resources must now be dispatchable and be paid a nodal price, without properly justifying this change. AMPCO does not see the need for this change and as such, cannot support it.

### 2. Out-of-Market Activation of DR Resources

AMPCO supports the IESO proposal to compensate out-of-market activation of DR resources. AMPCO agrees that these activations (due to testing and emergency situations) can often occur at a price below the bid price of a DR resource. Further, payment for these activations is consistent with energy market and existing design treatment of other resources (including dispatchable loads), thereby leveling the playing field and guarding against any discriminatory treatment that would serve to undermine confidence in Ontario's electricity markets.

In anticipation of compensation being paid for both Out-of-Market as well as Economic Activations, it seems reasonable to maintain consistency between these two different situations. The IESO has listed three potential approaches for consideration in the materials posted on its website on the DRWG page:

- Using energy bids as representative costs
- Historical precedents, such as CBDR activation payments

- Identify costs on individual or type of resource basis

In AMPCO's opinion, the third option would be an administrative nightmare for the IESO and should not be further considered.

The second option has the advantage of having been used previously as part of the Capacity-Based Demand Response (CBDR) Program. However, the value of CBDR, set at that time at \$200, seems somewhat arbitrary. While AMPCO could live with this approach, it does not recommend this as the final solution.

The first option has the advantage of being most consistent with what other participants will be receiving. For this reason alone, AMPCO is in favour of option one - using energy bids as representative costs.

### 3. Economic Activation of DR Resources

In reviewing the points listed on slide 40 of the presentation materials from the June 19 stakeholder meeting<sup>2</sup>, AMPCO is struck by the similarities to some of the points raised in its own submission of May 2, 2019. To summarize, when it was only DR that was participating in the DR Auction, all DR resources were impacted equally by proponents' inclusion of expected costs of activations in DR Auction offer prices. However, once another class of participant is introduced, the impact is no longer equal. Accordingly, this same concept needs to be applied to economic activations.

AMPCO strongly supports the compensation of DR resources in economic activations, and believes that it must be consistent with the compensation provided to others and to the compensation contemplated in out-of-market activations.

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<sup>2</sup> Found at <http://www.ieso.ca/sector-participants/engagement-initiatives/working-groups/demand-response-working-group>

While the IESO has agreed to implement compensation for out-of-market activations, it is proposing to undertake additional analysis before reaching a conclusion on economic activations. Given the sentiments expressed on slide 40, AMPCO believes that the conclusion of the IESO analysis is already determined - compensation is appropriate. Any analysis, therefore, should focus on “how” to achieve this end.

The IESO has asked four specific questions as part of its call for submissions. Each will be addressed here.

- **What is the appropriate analysis to complete?** As already stated (in this and prior submissions), principles of non-discrimination, fair treatment and level playing fields have already dictated that compensation is appropriate. An assessment of whether or not to compensate is therefore not required. The analysis should rather focus on how best to effect compensation and at what level it should be paid. As set out above in the section on out-of-market activations, consistency with other participants should be the paramount criterion.
- **Who is best to complete the analysis?** AMPCO is mindful of a number of competing considerations in this area. First, there is a need to move swiftly, as will be set out in greater detail below. Second, there is the issue of cost to consider. The benefit of conducting such an analysis should not be overwhelmed by its own expense. Third, one must consider work that has already been done in this area and it should be an objective of the analysis to leverage that work<sup>3</sup> in order to avoid costly duplication of effort. Finally, the credibility of the entity performing the work must be beyond reproach. Conflicts, or perceived conflicts, should be avoided.

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<sup>3</sup> Including work in Ontario as well as work that was done pursuant to FERC Order 745, where appropriate.

Consideration of these criteria does not yield one specific entity that should be the clear choice to perform this work. However, the time constraint, in concert with the need to be impartial and to be able to quickly gather and interpret previous relevant analyses points to a body external to the IESO, such as Navigant, who has previously been engaged in work associated with the DRWG.

- **Who else should be consulted?** AMPCO has few comments in this area. Specifically called out in the IESO materials were the MDAG and the OEB. If the IESO wishes to engage the MDAG, AMPCO has no objections. However, given the role of the OEB in adjudicating conflicts that may arise pursuant to market rule development, AMPCO does not feel that it is appropriate to engage the Board, in any capacity, on this question. The OEB (whether Staff or Board Members) should not be asked to opine on an issue that it could potentially have to decide later. This represents a clear conflict of interest.
- **When is a decision required by?** This is a critical question. In AMPCO's submission, the issue of compensation for economic activations must be clearly decided - and implemented - prior to the initiation of the TCA. The reasons for this view are clearly articulated in AMPCO's submission of May 2, 2019<sup>4</sup> and (for brevity) will not be repeated here.

Admittedly, the amount of work that must be done (analysis, rules, manuals, approvals, etc.) is likely too great to be completed by the IESO's desired first auction date of December 2019. If a genuine, urgent reliability concern existed, then this would outweigh the need for executing the first

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<sup>4</sup> Found at <http://www.ieso.ca/Sector-Participants/Engagement-Initiatives/Engagements/Meeting-Ontarios-Capacity-Needs-2020-2024>

TCA auction with all of the appropriate design elements in place. This is not the case.

While AMPCO supports the IESO's desire to learn from TCAs in advance of the design and implementation of the Incremental Capacity Auction (ICA), it does not place that desire above the need to implement a fair and non-discriminatory TCA in a situation where no immediate reliability concern is required to be addressed. As AMPCO has stated multiple times in the past - we need to get this right from the start.

Accordingly, AMPCO recommends a six month delay in the start of the TCA in order to accommodate all the work that needs to be done to properly implement the auction.

Alternatively, if for whatever reason the IESO cannot abandon its December 2019 TCA deadline, then the following approach could be adopted. The TCA can proceed on its original timeline, but the promised May 2020 implementation date for out-of-market activations must also apply to implementation of economic activations. In this way DR proponents can be assured that, notwithstanding that the TCA will have commenced, the IESO will have provided its formal assurance that compensation for both types of activations will be designed and implemented by May 2020, at the latest. This means that the auction will be implemented with a known shortcoming, but at least there will be a clear guarantee that the shortcoming will be addressed in a timely fashion.

AMPCO appreciates the opportunity to provide such feedback, and looks forward to continuing to work with the IESO and other stakeholders in designing and implementing a fair, non-discriminatory auction process.